

Iran: Economic Significance of Tabriz

Tabriz, a city of approximately 600,000 in northwest Iran, is an important transportation, manufacturing, and agricultural center. The short-run effect of the recent rioting in Tabriz is most likely to be felt on Iran's non-maritime trade. Foreign shippers were already experiencing difficulty arranging land transportation of goods to Iran even before the rioting, the rail link at Jolfa on the border with the USSR was reported closed until 10 December. Truck carriers were also reluctant to enter Iran, and the recent events should reinforce these feelings. Over the longer run, the further disruption of economic production in the important plants in Tabriz will be felt by the economy. Even if the crises quiets down soon, the new Islamic government will have to worry about having a major manufacturing center in such an insecure area. [REDACTED]

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Importance to Transport

Iran's only rail link with the USSR -- via Jolfa -- passes through Tabriz. In addition, the railroad from Turkey joins this main line northwest of the city at Sufian. Iran's major highway link with Europe -- via Turkey -- also passes through the city. A State Department officer observed that in 1977, 600 to 800 tractor-trailor transports a day used this highway, but that the number had shrunk to about 200 a day in October of this year. This volume had reportedly fallen to 70 per day in mid-November. Except for freight passing through Astara on the rail to highway container link with the USSR, the bulk of Iran's non-maritime imports (about 25 percent of total imports) passes through Tabriz. [REDACTED]

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Production Activities

Tabriz is also a major heavy engineering and manufacturing center for Iran. At last reports, which pre-date the current crisis all manufacturing facilities in Tabriz were reported to be operating at less than 50 percent of normal production. These operations may have been at least temporarily suspended

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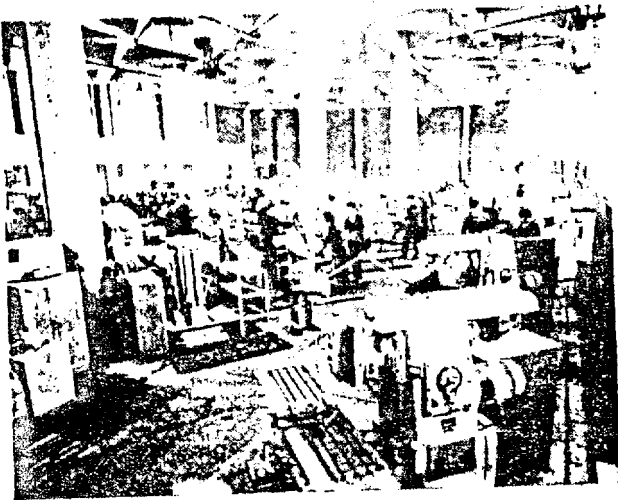
25X1 by the current unrest. [REDACTED]

The Iran Tractor Manufacturing Company -- a joint venture with Massey-Ferguson and the only tractor plant in Iran -- has a reported capacity of 20,000 tractors a year and 30,000 (10,000 surplus) Perkins engines. Joint venture operations in the city with Daimler-Benz, Dorman, and British Leyland have the rated capacity to supply the entire diesel engine needs for Iran. The Daimler-Benz plant has a capacity of approximately 20,000 engines a year and is reported to be one of the most efficient plants in Iran. A large ball bearing plant (with SKF of Sweden) and major machine tool manufacturing facilities are also located in Tabriz. In addition to tractors and diesel engines, plants in Tabriz produce machine tools, compressors, pumps and valves, small-scale drilling machines, electric motors, and fork lift trucks. [REDACTED]

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### Center of Agriculture

25X1 Tabriz is also in a major agricultural region of Iran; climatic conditions in this area are among the most favorable in the country. East Azarbayjan, of which Tabriz is the provincial capital, produced about 10 percent of Iran's wheat and barley, and about 15 percent of its potatoes in recent years. [REDACTED]



Tabriz Machine Manufacturing Plant



Iran Tractor Manufacturing Plant

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Economic Sanctions: Theory and Practice

Historically speaking, economic sanctions -- when not accompanied by other measures such as naval blockades -- have generally had either a perverse effect or no effect whatsoever on the sanctioned country. On the one hand, we have the violent reaction of Imperial Japan against restrictions on its supplies of scrap and petroleum before World War II. On the other hand, we have the business-as-usual response of Cuba and Rhodesia to the on-going trade embargoes. In no case that I am acquainted with has the sanctioned country made radical changes in its policies along lines that the sanctioning nations desire.

The most successful recent example of economic sanctions is without doubt the 1973 Arab oil embargo against the United States and the Netherlands. Even in this case, however, success was much more limited than is generally believed. The international oil companies were able to juggle the reduced quantity of oil available in ways that assured the United States and the Netherlands of their full share. Moreover, the embargo created severe strains among the oil-producing nations; Iraq did not cut production and largely ignored the embargo, while Iran used the embargo to increase its earnings at the expense of Arab producers. Non-Arab producers such as Venezuela and Indonesia openly expressed their concerns about the "politicalization" of their most important asset. The Arabs learned that the "oil weapon" was a two-edged sword, wounding both friend and foe. They are extremely reluctant to unsheathe it again.

In order to understand why sanctions so rarely work in the manner intended, we must divide them into two general types: those that do not inflict severe damage to the economy of the sanctioned country and those that do. Although neither works, their effects on the rest of the world (i.e. the non-sanctioned nations) are quite different.

Let us take Rhodesia as an example. As is well known, the original 1966 British sanctions were broadened in 1970 by UN-backed measures intended to cover all foreign trade and capital flows. However, neither the United Kingdom nor any other nation or group of nations chose to pay the price that putting strong teeth in the sanctions would entail. As a result, the sanctions merely increased the profits of those who chose to ignore them. Thus, it is no surprise that foreign firms and middlemen (including those

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of Black Africa) found ways of skirting local laws to supply Rhodesia with almost everything required to run an economy and fight a war. The situation (speaking purely from the sanctions point of view) is stable: Salisbury is getting everything it needs (at the cost of a slightly higher rate of inflation) without having to make policy concessions, while the rest of the world is able to feel virtuous without having to deprive itself of Rhodesian minerals and profits. In this type of situation -- and it is roughly the same story with regard to the Cuban embargo -- each side gains about as much as it loses; such "sanctions" can, and often do, last for years.

Now let us suppose as a hypothetical case that the United Kingdom had decided to put real teeth into the sanctions (without taking military action). First, London would have had to be willing to put extreme pressure on -- or make substantial concession to -- other nations to get them to go along. If necessary, it would have had to be willing to give in on Common Market issues (of great interest to the British man on the street) or to threaten traditional allies with a serious cooling of relations. Second, it would have had to accept the commercial losses for its own firms that strict application of the sanctions would imply. Lastly, it would have had to take domestic and international political heat from those who could have accepted a slap on Salisbury's wrist but not all-out economic war. Within Rhodesia the sanctions would have fallen largely on the Black population and would have undercut any voices of moderation in the White population without seriously limiting the country's defense capabilities. It is not surprising that a policy of strict sanctions strictly enforced is rarely adopted.

All of this is not to say that sanctions cannot be useful. Although they have little effect on the sanctioned nation, mild sanctions provide a relatively costless means for the nation or nations applying the sanctions to: (a) rally their populations to the cause; and (b) indicate to third countries the seriousness with which they view the situation.

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